

Elk Rapids Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2008

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Management's Discussion and Analysis

As management of Elk Rapids Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$7,819,159 (*net assets*). Of this amount, *unrestricted net assets* had a balance of \$489,137.
- The government's total net assets increased by \$1,234,743.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,922,701, an increase of \$861,469 in comparison with the prior year. This *net* increase is mainly attributable to the bond proceeds from the 2008 School Improvement Fund Bond. See pages 7 and 29 for the exact composition of this net increase. Of the \$2,922,701, approximately 38%, or \$1,097,605 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,097,605 or 8.5 percent of total general fund expenditures.
- Investments for the future were made by the spending of \$1,199,310 on school improvements, buses, computer equipment and a new bus repair and maintenance facility. Of these acquisitions, \$616,354 is attributable to the 2007 Bus Facility Bond Project, \$358,635 is attributable to five new buses financed with an installment purchase agreement and \$138,915 is attributable to the 2008 School Improvement Fund.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, and athletics. The District has no business-type activities as of and for the year ended June 30, 2008.

The government-wide financial statements can be found on pages 4 - 5 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, 2007 Bus Facility Fund and 2008 School Improvement Fund which are considered to be a major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided for the General Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 6 - 8 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 9 - 10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11 - 24 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining fund statements can be found on pages 28 - 29 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$7,819,159 at the close of the most recent fiscal year.

The District's net assets are primarily comprised of its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District's Net Assets

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 4,860,930	\$3,585,731
Capital assets, net	<u>13,661,742</u>	<u>13,208,668</u>
Total assets	<u>18,522,672</u>	<u>16,794,399</u>
Liabilities		
Long-term liabilities outstanding	6,683,128	6,837,973
Other liabilities	<u>4,020,385</u>	<u>3,372,010</u>
Total liabilities	<u>10,703,513</u>	<u>10,209,983</u>
Net assets		
Invested in capital assets, net of related debt	7,023,040	5,821,410
Restricted	306,982	255,669
Unrestricted	<u>489,137</u>	<u>507,337</u>
Total net assets	<u>\$ 7,819,159</u>	<u>\$ 6,584,416</u>

Additional components of the District's net assets include \$188,740 for Debt service, \$81,860 for capital projects and \$36,382 for school-based activities. These represent resources that are subject to external restrictions on how they may be used. The remaining component of *net assets*, \$489,137 represents *unrestricted net assets*.

The government's net assets increased by \$1,234,743 during the current fiscal year. See subsequent page for the major components of this increase.

Included in the current fiscal year was foundation allowance funding, set by the State of Michigan, of \$7,281 per student.

Since the "Schools of Choice" legislation was enacted, the District's enrollment has increased nearly every year, and now hovers around the 1,550 to 1,590 student range.

District's Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Revenue		
Program revenue		
Charges for services	\$ 689,870	\$707,339
Operating grants/contributions	647,240	658,475
Capital grants/contributions	139,155	225,318
General revenue		
Property taxes	9,132,527	8,633,019
State school aid	4,391,375	4,380,252
Unrestricted investment earnings and other	<u>637,961</u>	<u>671,682</u>
Total Revenue	<u>15,638,128</u>	<u>15,276,085</u>
Expenses		
Instruction	\$7,827,374	\$7,573,273
Supporting services	4,284,107	4,269,158
Community services	249,433	248,711
Food services	624,492	618,912
Athletics	298,555	258,282
Depreciation – unallocated	746,236	725,560
Interest on long-term debt	265,009	269,920
Other	<u>108,179</u>	<u>115,060</u>
Total Expenses	<u>14,403,385</u>	<u>14,078,876</u>
Increase in net assets	1,234,743	1,197,209
Net assets, beginning of year	<u>6,584,416</u>	<u>5,387,207</u>
Net assets, end of year	<u>\$ 7,819,159</u>	<u>\$ 6,584,416</u>

Governmental activities. Net assets increased by \$1,234,743. The key elements of this increase are as follows:

- Net assets related to the Athletic Complex Fund were increased by \$53,317 due to fundraising events and donations.
- The \$1,923,702 *reduction* of Bonded and Bus Loan debt outstanding offset \$746,236 of depreciation expense incurred from capital assets by \$1,177,466. This provided a direct increase in the equity attributable to the District's capital assets.

Financial Analysis of the Government's Funds

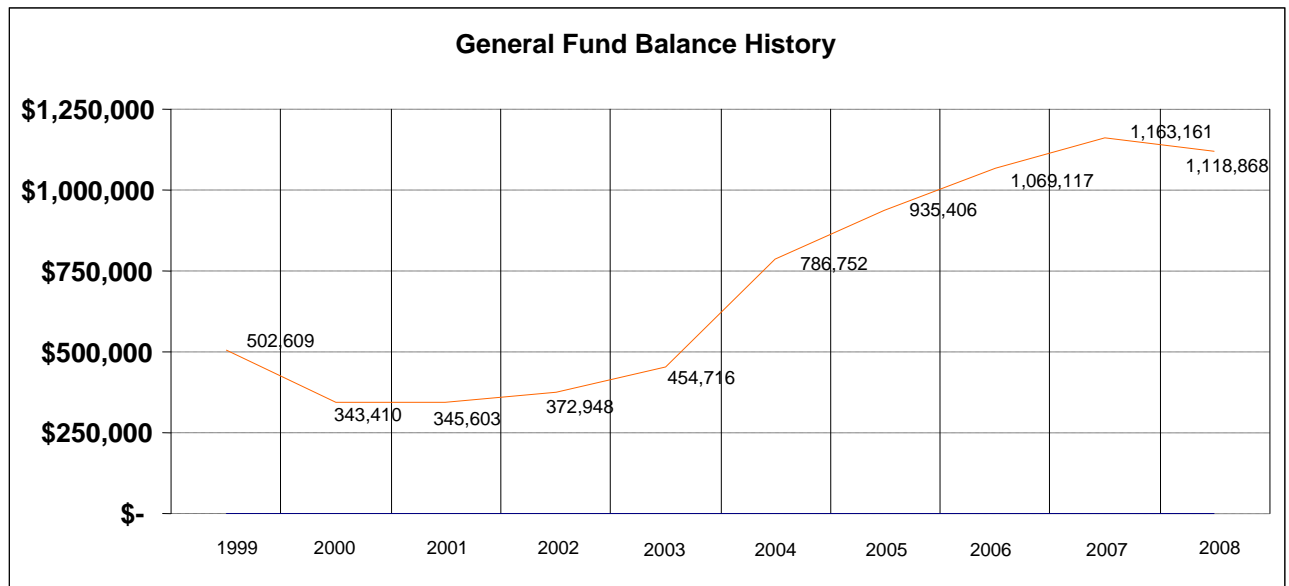
As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,922,703, an increase of \$861,471 in comparison with the prior year. Approximately 38% of this total amount (\$1,097,605) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are not available for current expenditure. This is because they are included as capital projects, school-based services and debt service fund accounts.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,097,605. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 8.5 percent of total general fund expenditures.

The fund balance of the District's general fund decreased by \$44,293 during the current fiscal year.



The Food Service Fund has a total fund balance of \$19,237, which increased by \$4,367.

The Athletics Fund has a total fund balance of \$3,816, which decreased by \$3,941.

The Kid's Club & Kinderpals Fund has a total fund balance of \$13,330, which increased by \$7,444.

The combined debt service funds have a total fund balance of \$230,986, which decreased by \$8,232.

The Athletics Complex Fund has a total fund balance of \$65,373, which increased by \$53,317. This fund is supported primarily by donations related to a fundraising campaign titled 'Finish the Dream.'

The 2007 School Bus Facility capital project fund has a total fund balance of \$15,994, which decreased by \$602,290. This fund was created to account for the voter-approved bus repair and maintenance facility.

The 2008 School Improvement capital project fund, introduced in the current year, has a total fund balance of \$1,455,099. This fund was created to account for the voter-approved improvements to technology, energy efficiency and the bus fleet.

General Fund Budgetary Highlights

Significant differences between the original and final amended budgets were partly due to actual enrollments exceeding projections. This prompted the need to hire additional teachers. Additionally, taxable valuation changes occurring throughout the year caused revenue originally budgeted as local source to be reclassified as state revenues. Expenditures within the transportation department were up considerably from initial projections due to a steep increase in diesel pricing.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$13,661,742 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 3.4 percent.

The major capital asset events during the current fiscal year were the following:

- \$616,354 spent to construct and equip a bus repair and maintenance facility. Funding was supported with bond proceeds from the 2007 Bus Facility capital projects fund.
- \$358,635 expended to acquire five new school buses. Funding was provided through a 5-year installment purchase agreement.
- \$136,535 for technology upgrades. Funding was supported with bond proceeds from the 2008 School Improvement Fund.
- \$76,348 spent on high school office renovations and new high school library furniture. Funding came from the District's general fund with partial support of \$17,881 from the Durant settlement payment.

District's Capital Assets

(net of depreciation)

June 30, 2008

	Governmental <u>Activities</u>
Land	\$ 94,249
Buildings and building improvements	12,228,429
Machinery and equipment	496,208
Furniture and fixtures	202,841
Software	4,470
Vehicles	<u>635,545</u>
Total net assets	<u>\$ 13,661,742</u>

Additional information on the District's capital assets can be found in Note E on page 18 of this report.

Long-term debt. At the end of the current fiscal year, the District had 1998 School Improvement (Durant) bonded debt outstanding of \$73,286. This bond issue is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan.

At the end of the current fiscal year, the District had 2002 Refunding Bond debt outstanding of \$1,965,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the district. This bond issue replaced the 1995 School Building and Site bond issue debt with bonds at lower interest rates resulting in a projected cumulative taxpayer-savings of approximately \$363,000.

At the end of the current fiscal year, the District had 2003 Refunding Bond debt outstanding of \$645,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the district. This bond issue replaced the 1993 Refunding bond issue debt with bonds at lower interest rates resulting in a projected cumulative taxpayer-savings of approximately \$182,000.

At the end of the current fiscal year, the District had 2003 School Building and Site debt outstanding of \$2,820,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the district.

At the end of the current fiscal year, the District had 2005 School Building and Site debt outstanding of \$145,000. This bond issue is a general obligation-limited tax liability of the District. These bonds are payable as to principal and interest from District resources and not from an annual unlimited ad valorem tax such as what the District's other four bond issues have in effect.

At the end of the current fiscal year, the District had 2007 School Bus Facility debt outstanding of \$590,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the district.

At the end of the current fiscal year, the District had 2008 School Improvement debt outstanding of \$1,625,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the district.

At the end of the current fiscal year, the District had a note payable to a bank outstanding of \$309,459. This debt was created from an installment purchase agreement made to acquire five new school buses in the Fall of 2007. The debt service is paid by appropriations from the District's General Fund.

At the end of the current fiscal year, the District had a note payable to a bank outstanding of \$49,822. This debt was created from an installment purchase agreement made to acquire three new school buses in the Fall of 2004. The debt service is paid by appropriations from the District's General Fund.

The District's total general obligation bonds and notes payable increased by \$59,933 (0.7 percent) during the current fiscal year.

Additional information on the District's long-term debt can be found in Note F on pages 19 - 20 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2008-09 fiscal year:

- The economic downswing of Michigan's economy has been a continuing concern. The latest State Aid proposals do not clearly identify what level of per-pupil funding increases may occur. The ultimate State Aid Bill is expected to provide the District with per pupil funding that is materially close to the budget projection.
- Uncertainties related to enrollment counts and energy costs continue to present budgeting challenges for all Michigan school districts. Enrollment projections were fairly consistent with fiscal year 2007-08 'actual counts.' Total energy budgeting was believed to be conservatively derived. Energy cost volatility continues to be a key budgetary concern.
- The continued economic slowdown affecting the State of Michigan could result in insufficient per-pupil increases in 2009-10. The impact from a funding freeze from 2008-09 levels would present very serious budgetary challenges for all districts. Spending decisions for 2008-09 are being made with consideration of potential 2009-10 funding issues.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, 707 E. Third Street, Elk Rapids, Michigan 49629.



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Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Elk Rapids Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the ***Elk Rapids Schools*** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the School District's 2007 and 2006 financial statements and, in our reports dated September 28, 2007 and August 11, 2006, respectively, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Elk Rapids Schools as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 06, 2008, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages i - ix and budgetary comparison information on page 26, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements and other supplemental information on pages 28 - 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements and other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

October 6, 2008

Elk Rapids Schools

STATEMENT OF NET ASSETS

June 30, 2008

		For Comparative Purposes Only	
	2008	2007	2006
	Governmental Activities	Governmental Activities	Governmental Activities
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,765,142	\$ 2,566,046	\$ 1,204,669
Investments	-	-	320,714
Due from other governments	1,034,483	969,350	1,194,044
Accounts receivables	16,641	15,703	10,907
Inventory	4,911	4,253	7,791
Deposits	18,490	-	-
Prepays	<u>21,263</u>	<u>30,379</u>	<u>29,757</u>
Total current assets	4,860,930	3,585,731	2,767,882
Capital assets, net of accumulated depreciation	<u>13,661,742</u>	<u>13,208,668</u>	<u>13,738,605</u>
Total assets	<u>\$ 18,522,672</u>	<u>\$ 16,794,399</u>	<u>\$ 16,506,487</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 50,587	\$ 90,466	\$ 221,561
Salaries payable and related expenses	1,435,911	1,176,437	985,098
Accrued expenses	162,262	67,561	47,575
Deferred revenue	258,427	141,039	125,585
Current portion of long-term liabilities	<u>2,113,198</u>	<u>1,896,507</u>	<u>1,736,195</u>
Total current liabilities	4,020,385	3,372,010	3,116,014
Non-current portion of long-term obligations	<u>6,683,128</u>	<u>6,837,973</u>	<u>8,003,266</u>
Total liabilities	<u>10,703,513</u>	<u>10,209,983</u>	<u>11,119,280</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,023,040	5,821,410	4,692,155
Restricted for			
Capital Projects	81,860	12,228	16,864
Debt Service	188,740	214,928	216,156
School-based activities	36,382	28,513	12,640
Unrestricted	<u>489,137</u>	<u>507,337</u>	<u>449,392</u>
Total net assets	<u>7,819,159</u>	<u>6,584,416</u>	<u>5,387,207</u>
Total liabilities and net assets	<u>\$ 18,522,672</u>	<u>\$ 16,794,399</u>	<u>\$ 16,506,487</u>

The accompanying notes are an integral part of these financial statements.

Elk Rapids Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 7,827,374	\$ 2,340	\$ 216,841	\$ -	\$ (7,608,193)
Supporting Services	4,284,107	28,756	185,534	-	(4,069,817)
Community Services	249,433	211,245	44,080	-	5,892
Food Service	624,492	349,139	200,785	-	(74,568)
Athletics	298,555	98,390	-	139,155	(61,010)
Other	108,179	-	-	-	(108,179)
Interest on long-term debt	265,009	-	-	-	(265,009)
Depreciation-unallocated	<u>746,236</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(746,236)</u>
Total governmental activities	<u>\$ 14,403,385</u>	<u>\$ 689,870</u>	<u>\$ 647,240</u>	<u>\$ 139,155</u>	<u>(12,927,120)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					7,150,324
Levied for Debt Service					1,982,203
State school aid - unrestricted					4,391,375
Investment and other					<u>637,961</u>
Total general purpose revenues					<u>14,161,863</u>
Change in net assets					1,234,743
Net assets, beginning of year					<u>6,584,416</u>
Net assets, end of year					<u>\$ 7,819,159</u>

Elk Rapids Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

	General Fund	2008 School Improvement Fund	2007 School Bus Facility Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,704,084	\$ 1,586,998	\$ 18,525	\$ 455,535	\$ 3,765,142
Due from other governments	957,687	-	-	76,796	1,034,483
Accounts receivables	12,462	-	-	4,179	16,641
Due from other funds	14,412	-	-	2,878	17,290
Inventory	-	-	-	4,911	4,911
Deposits	5,990	-	-	12,500	18,490
Prepaid	21,263	-	-	-	21,263
Total assets	<u>\$ 2,715,898</u>	<u>\$ 1,586,998</u>	<u>\$ 18,525</u>	<u>\$ 556,799</u>	<u>\$ 4,878,220</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 1,456,458	\$ 117,487	\$ 2,531	\$ 30,040	\$ 1,606,516
Deferred revenue	137,694	-	-	194,019	331,713
Due to other funds	2,878	14,412	-	-	17,290
Total liabilities	<u>1,597,030</u>	<u>131,899</u>	<u>2,531</u>	<u>224,059</u>	<u>1,955,519</u>
FUND BALANCES					
Reserved for debt retirement	-	-	-	230,986	230,986
Reserved for Capital Projects	-	1,455,099	15,994	65,372	1,536,465
Reserved for inventory	-	-	-	4,911	4,911
Reserved for Food Service	-	-	-	14,326	14,326
Reserved for other school-based activities	-	-	-	17,145	17,145
Reserved for prepaid	21,263	-	-	-	21,263
Unreserved and undesignated, reported in General Fund	<u>1,097,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,097,605</u>
Total fund balances	<u>1,118,868</u>	<u>1,455,099</u>	<u>15,994</u>	<u>332,740</u>	<u>2,922,701</u>
Total liabilities and fund balances	<u>\$ 2,715,898</u>	<u>\$ 1,586,998</u>	<u>\$ 18,525</u>	<u>\$ 556,799</u>	
Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Assets					
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$22,292,458 and the accumulated depreciation is \$(8,630,716).					13,661,742
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.					
Deferred Durant settlement receivable					73,286
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:					
Bonds payable					\$ (8,222,567)
Accrued interest on bonds					(42,244)
Accumulated leave liability					(629,732)
Unamortized refunding costs					<u>55,973</u>
					<u>(8,838,570)</u>
Total net assets - governmental activities					<u>\$ 7,819,159</u>

Elk Rapids Schools

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General Fund	2008 School Improvement Fund	2007 School Bus Facility Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 7,150,324	\$ -	\$ -	\$ 1,972,337	\$ 9,122,661
Interest	138,009	493	14,064	75,062	227,628
State revenues	4,618,586	-	-	21,962	4,640,548
Federal revenues	248,000	-	-	178,823	426,823
Other	<u>440,418</u>	<u>-</u>	<u>-</u>	<u>797,930</u>	<u>1,238,348</u>
Total revenues	<u>12,595,337</u>	<u>493</u>	<u>14,064</u>	<u>3,046,114</u>	<u>15,656,008</u>
Expenditures					
Instruction	7,837,151	-	-	-	7,837,151
Supporting Services	4,234,069	-	-	-	4,234,069
Community Services	44,080	-	-	205,151	249,231
Food Service	-	-	-	624,317	624,317
Athletics	-	-	-	274,982	274,982
Other	3,646	-	-	-	3,646
Debt Service					
Principal	103,658	-	-	1,820,000	1,923,658
Interest	12,708	-	-	252,268	264,976
Other	-	-	-	7,435	7,435
Other	-	31,479	-	37,619	69,098
Capital outlay	<u>498,953</u>	<u>138,915</u>	<u>616,354</u>	<u>35,389</u>	<u>1,289,611</u>
Total expenditures	<u>12,734,265</u>	<u>170,394</u>	<u>616,354</u>	<u>3,257,161</u>	<u>16,778,174</u>
REVENUES UNDER EXPENDITURES	<u>(138,928)</u>	<u>(169,901)</u>	<u>(602,290)</u>	<u>(211,047)</u>	<u>(1,122,166)</u>
Other financing sources (uses)					
Operating transfers in	-	-	-	294,814	294,814
Operating transfers out	(264,000)	-	-	(30,814)	(294,814)
Proceeds from bus loan	358,635	-	-	-	358,635
Proceeds from bond issue	<u>-</u>	<u>1,625,000</u>	<u>-</u>	<u>-</u>	<u>1,625,000</u>
Total other financing sources (uses)	<u>94,635</u>	<u>1,625,000</u>	<u>-</u>	<u>264,000</u>	<u>1,983,635</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(44,293)	1,455,099	(602,290)	52,953	861,469
Fund balance, beginning of year	<u>1,163,161</u>	<u>-</u>	<u>618,284</u>	<u>279,787</u>	<u>2,061,232</u>
Fund balance, end of year	<u>\$ 1,118,868</u>	<u>\$ 1,455,099</u>	<u>\$ 15,994</u>	<u>\$ 332,740</u>	<u>\$ 2,922,701</u>

The accompanying notes are an integral part of these financial statements.

Elk Rapids Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$	861,469
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capitalized outlays exceeds depreciation in the period.

Capitalized outlays	\$	1,199,310	
Depreciation expense		<u>(746,236)</u>	453,074

In the statement of activities, certain operating expenses (unused sick days) are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was more than the amounts earned by \$26,090.	26,090
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Other long-term assets are not available to pay for current period expenditures, and, therefore, associated revenues are deferred in the funds. The previously deferred Durant settlement recognized in the current year in fund financial statements was \$17,881.	(17,881)
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Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	1,923,702
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Some of the capital assets acquired this year were financed with proceeds from long-term debt. The amount financed by the proceeds is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets.	(1,983,635)
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Amortization of deferred refunding costs	(28,003)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities; however, interest expense is recognized as the interest accrues, regardless of when it is due. The lower interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds and notes payable.	<u>(73)</u>
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Changes in Net Assets of Governmental Activities	\$	<u>1,234,743</u>
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Elk Rapids Schools

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Private Purpose Trust Funds	<u>Agency Funds</u> Student Activities
ASSETS		
Cash and cash equivalents	<u>\$ 15,851</u>	<u>\$ 143,088</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to student groups	\$ -	<u>\$ 143,088</u>
NET ASSETS		
Reserved for scholarships	3,593	
Reserved for auditorium maintenance	9,215	
Reserved for alumni activities	<u>3,043</u>	
Total net assets	<u>\$ 15,851</u>	

Elk Rapids Schools

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2008

	Private Purpose <u>Trust Funds</u>
Additions	
Private donations and interest	\$ 13,216
Deductions	
Fees and other	<u>4,018</u>
Change in net assets	9,198
Net assets, beginning of year	<u>6,653</u>
Net assets, end of year	<u><u>\$ 15,851</u></u>

Elk Rapids Schools

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Elk Rapids Schools (the "School District") is a Michigan public school district consisting of two elementary buildings, one middle school and one high school building. The School District primarily serves the Elk Rapids community. As of June 30, 2008, the School District employed 98 professional staff and 82 non-professional staff and had 1,575 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2008.

Financial Reporting Entity

Elk Rapids Schools' Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The 2008 School Improvement Fund is used to account for financial resources to be used for the school improvement project.

NOTES TO FINANCIAL STATEMENTS - Continued

The 2007 School Bus Facility Fund is a capital projects fund used to account for financial resources to be used for the construction of a new bus facility.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Athletics Fund, the Food Service Fund and the Kids Club and Kinderpals Fund.

The School District has six Debt Service Funds, which are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The School District has one non-major Capital Project Fund, which is used to account for financial resources to be used for the acquisition or construction of athletic equipment and athletic-related infrastructure.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Private Purpose Trust Funds account for contributions earmarked for scholarships available to qualifying students of the School District, the maintenance of a school auditorium and alumni activities.

Cash and Cash Equivalents

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at market value.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

NOTES TO FINANCIAL STATEMENTS - Continued

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	25-50 years
Vehicles	10-12 years
Furniture and equipment	5-20 years

Long-term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. Designations of fund balance represent tentative management plans that are subject to change.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

Spending Policy

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as needed.

NOTES TO FINANCIAL STATEMENTS - Continued

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Prior Year Comparative Information

The financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School District's financial statements for the years ended June 30, 2006 and 2007.

NOTE B - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.

NOTES TO FINANCIAL STATEMENTS - Continued

5. It is the Superintendent's responsibility to supervise and monitor the budget process. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2008, the School District incurred expenditures which were in excess of the amounts appropriated as reflected in the budgetary comparison schedule as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Other	\$ 163,285	\$ 164,092	\$ (807)

NOTE C - CASH AND EQUIVALENTS

At June 30, 2008, the School District's cash and cash equivalent investments include the following:

	<u>Total</u>
Cash on hand	\$ 588
Bank deposits	177,016
Investments	<u>3,746,477</u>
	<u><u>\$ 3,924,081</u></u>

Bank Deposits

	<u>Carrying Value</u>	<u>Uncollateralized Bank Balances</u>		
		<u>Insured</u>	<u>Uninsured</u>	<u>Total</u>
Bank deposits	<u>\$ 177,016</u>	<u>\$ 186,811</u>	<u>\$ 2,376</u>	<u>\$ 189,187</u>

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage.

NOTES TO FINANCIAL STATEMENTS - Continued

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States or the State of Michigan.
2. Certificates of deposit issued by financial institutions organized and authorized to operate in Michigan.
3. Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government or Federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the Federal deposit insurance corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Michigan Investment Liquid Asset Fund Plus ("MILAF").

Investments at June 30, 2008 consisted of the following:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
MILAF	<u>\$ 3,746,477</u>	<u>\$ 3,746,477</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities or MILAF and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District's investment policy further limit it's investment choices as described above. The School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18 per \$1,000 of equalized non-homestead property value of \$391.9 million was levied for general operating purposes. For debt service purposes, \$2.39 per \$1,000 of equalized homestead and non-homestead property value of \$821.0 million was levied for bonded debt repayments by the Debt Service Fund.

Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2008 are as follows:

Due from the State of Michigan	
State Aid	\$ 850,305
Durant funds receivable	73,286
Other	<u>110,892</u>
	<u>\$ 1,034,483</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Buildings	\$ 4,273,129	\$ 574,473	\$ -	\$ 4,847,602
Building improvements	13,892,706	58,858	-	13,951,564
Machinery and equipment	955,955	189,854	-	1,145,809
Software	17,882	-	-	17,882
Furniture and fixtures	1,052,486	17,490	-	1,069,976
Vehicles	<u>1,040,961</u>	<u>358,635</u>	<u>(234,220)</u>	<u>1,165,376</u>
Total depreciable assets	21,233,119	1,199,310	(234,220)	22,198,209
Less accumulated depreciation	(8,118,700)	(746,236)	234,220	(8,630,716)
Land	<u>94,249</u>	<u>-</u>	<u>-</u>	<u>94,249</u>
Total capital assets, net	<u>\$ 13,208,668</u>	<u>\$ 453,074</u>	<u>\$ -</u>	<u>\$ 13,661,742</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 746,236</u>
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NOTE F - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2008 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 8,058,286	\$ 1,625,000	\$ 1,820,000	\$ 7,863,286	\$ 1,959,951
Unamortized refinancing costs	(83,976)	-	28,003	(55,973)	-
Notes payable	104,348	358,635	103,702	359,281	105,169
Accumulated leave liability	<u>655,822</u>	<u>-</u>	<u>26,090</u>	<u>629,732</u>	<u>48,078</u>
Long-term debt at June 30, 2008	<u>\$ 8,734,480</u>	<u>\$ 1,983,635</u>	<u>\$ 1,921,789</u>	<u>\$ 8,796,326</u>	<u>\$ 2,113,198</u>

Payments on general obligation bonds are made by the Debt Service Fund. The notes payable and accumulated leave liability will be liquidated primarily by the General Fund.

At June 30, 2008, the School District's long-term debt consisted of the following:

2003 School Building and Site Bonds ; due in annual installments of \$558,269 to \$665,963 through May 2013; interest rate of 2.50% to 3.25%.	\$ 2,820,000
2003 Refunding Bonds ; due in annual installments of \$665,962 through May 2009; interest rate of 3.25%.	645,000
2002 Refunding Bonds ; due in annual installments of \$809,381 to \$1,269,406 through May 2010; interest rate of 3.375% to 3.625%.	1,965,000

NOTES TO FINANCIAL STATEMENTS - Continued

2005 School Building and Site Bonds ; due in annual installments of \$29,959 to \$34,104 through May 2013; interest rate of 3.42%.	\$ 145,000
2007 School Bus Facility Bonds ; due in annual installments of \$91,786 to \$104,540, through May 2015; interest rate of 4.54%.	590,000
2008 School Improvement Bonds ; due in annual installments of \$75,000 to \$775,000 through May 2012; interest rate of 3.0%.	1,625,000
1998 School Improvement Bond (Durant) ; due in installments of \$12,556 to \$37,667 through May 2013; average interest rate of 4.76%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds.	<u>73,286</u>
Total general obligation bonds	7,863,286
Note payable to a bank , secured by buses, payable in monthly installments of \$3,180, including interest at 3.00%, with final payment due October 2009.	49,822
Note payable to a bank , secured by buses, payable in monthly installments of \$6,629, including interest at 4.15%, with final payment due September 2012.	309,459
Accumulated leave liability	629,732
Unamortized refinancing costs	<u>(55,973)</u>
Total long-term debt	<u><u>\$ 8,796,326</u></u>

Total annual requirements to amortize bonds and notes payable outstanding as of June 30, 2008 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 2,065,120	\$ 261,810
2010	2,028,934	203,382
2011	1,553,349	140,694
2012	1,583,428	85,646
2013	796,736	35,646
2014-2016	<u>195,000</u>	<u>13,393</u>
	<u><u>\$ 8,222,567</u></u>	<u><u>\$ 740,571</u></u>

Interest expense for the year ended June 30, 2008 was \$265,009 and interest paid for the year ended June 30, 2008 was \$264,932.

Accumulated Leave Liability

Employees of the School District accumulate earned but unused compensated sick leave days, as specified by the bargaining units' contract. 50 percent of sick leave is accrued when incurred for non-teachers and 40 percent for teachers. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

NOTES TO FINANCIAL STATEMENTS - Continued

Durant Settlement

As a result of the Durant v State of Michigan settlement regarding State underfunding of school revenues, the School District will be receiving \$17,881 per year over a ten-year period beginning November 15, 1998. This represents 50% of the expected funds. For the remaining 50% of the funds from this settlement, or \$178,810, the School District has opted to participate in a bonding program enabling it to receive a lump-sum payment on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose.

NOTE G - OPERATING LEASES

The School District leases various items of equipment pursuant to noncancellable leases which qualify as operating leases under generally accepted accounting principles. Net rental expense on operating leases for the year ended June 30, 2008 was \$18,547.

The following is a schedule of annual future minimum lease payments required under noncancellable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2008.

<u>Years Ending June 30,</u>	<u>Amount</u>
2009	\$ 18,547
2010	18,547
2011	<u>15,456</u>
	<u>\$ 52,550</u>

NOTE H - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis. No significant claims are known to exist.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

NOTES TO FINANCIAL STATEMENTS - Continued

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE I - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 14,412	\$ 2,878
Athletics	256	-
Food Service	2,622	-
2008 School Improvement Fund	<u>-</u>	<u>14,412</u>
	<u>\$ 17,290</u>	<u>\$ 17,290</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Major Governmental Funds		Major Governmental Funds	
General Fund	\$ -	General Fund	\$ 264,000
Other Governmental Funds		Other Governmental Funds	
Athletics	176,000	Athletic Fund	-
Food Service Fund	88,000	Food Service Fund	-
Athletic Complex Fund	-	Athletic Complex Fund	30,814
2005 School Bldg & Site Bond	<u>30,814</u>	2005 School Bldg & Site Bond	<u>-</u>
	<u>\$ 294,814</u>		<u>\$ 294,814</u>

NOTE J - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, or by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and the School District is required to contribute at an actuarially determined rate using the entry age actuarial cost method. The rate was 17.74% for the period June 1, 2007 to September 30, 2007 and 16.72% for the period October 1, 2007 to June 30, 2008 of annual covered payroll. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$1,262,276, \$1,278,244 and \$1,112,021, respectively, which is equal to the required contributions for each year.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE K - COMMITMENTS AND CONTINGENCIES

School Improvement Commitment

The School District began work on a 2008 school improvement capital project during the year ended June 30, 2008. The School District has committed to a total project cost of approximately \$1,650,000. Of this amount, the School District issued bonds in the amount \$1,625,000. The remaining balance of approximately \$25,000 will be received in the form of interest income. As of June 30, 2008, \$170,394 has been expended to date, leaving a remaining construction commitment of approximately \$1,480,000. The 2008 School Improvement Fund balance was \$1,455,099 at June 30, 2008. The expected completion date is August 2011.

NOTES TO FINANCIAL STATEMENTS - Continued

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Elk Rapids Education Association. The Board of Education and the Elk Rapids Education Association have a contract for the period September 1, 2005 through August 31, 2009.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract for the period July 1, 2007 through June 30, 2010.

The transportation personnel at the School District are organized under the Elk Rapids Schools Transportation Association. The Board of Education and the Elk Rapids Schools Transportation Association have a contract for September 1, 2008 through August 31, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

Elk Rapids Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
Revenues					
Local and intermediate sources	\$ 7,435,920	\$ 7,307,220	\$ 7,306,506	\$ (128,700)	\$ (714)
State revenues	4,344,276	4,602,749	4,618,586	258,473	15,837
Federal revenues	260,567	251,949	248,000	(8,618)	(3,949)
Other	<u>334,602</u>	<u>408,447</u>	<u>422,245</u>	<u>73,845</u>	<u>13,798</u>
Total revenues	<u>12,375,365</u>	<u>12,570,365</u>	<u>12,595,337</u>	<u>195,000</u>	<u>24,972</u>
Expenditures					
Current					
Instruction	7,788,318	7,870,444	7,853,464	(82,126)	16,980
Supporting Services	4,531,635	4,730,271	4,716,709	(198,636)	13,562
Other	<u>161,047</u>	<u>163,285</u>	<u>164,092</u>	<u>(2,238)</u>	<u>(807)</u>
Total expenditures	<u>12,481,000</u>	<u>12,764,000</u>	<u>12,734,265</u>	<u>(283,000)</u>	<u>29,735</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(105,635)	(193,635)	(138,928)	(88,000)	54,707
Other financing sources (uses)					
Operating transfers out	(253,000)	(264,000)	(264,000)	(11,000)	-
Proceeds from bus loan	<u>358,635</u>	<u>358,635</u>	<u>358,635</u>	<u>-</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-	(99,000)	(44,293)	(99,000)	54,707
Fund balance, beginning of year	<u>1,163,161</u>	<u>1,163,161</u>	<u>1,163,161</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,163,161</u>	<u>\$ 1,064,161</u>	<u>\$ 1,118,868</u>	<u>\$ (99,000)</u>	<u>\$ 54,707</u>

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Elk Rapids Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2008

	Special Revenue Funds			Debt Service Funds						Capital Projects	
	Food Service	Athletics	Kids Club and Kinderpals	Durant 1998 School Improvement Bond	2002 Refunding Bond	2003 Refunding Bond	2003 School Bldg & Site Bond	2005 School Bldg & Site Bond	2007 School Bus Facilities Bond	Athletic Complex Fund	Total Non-Major Governmental
ASSETS											
Cash and cash equivalents	\$ 17,129	\$ 23,865	\$ 30,882	\$ -	\$ 96,554	\$ 68,918	\$ 61,933	\$ 331	\$ 3,888	\$ 152,035	\$ 455,535
Due from other governments	3,510	-	-	73,286	-	-	-	-	-	-	76,796
Accounts receivables	846	-	-	-	1,241	1,062	893	-	137	-	4,179
Deposits	-	-	-	-	-	-	-	-	-	12,500	12,500
Due from other funds	2,622	256	-	-	-	-	-	-	-	-	2,878
Inventory	4,911	-	-	-	-	-	-	-	-	-	4,911
Total assets	<u>\$ 29,018</u>	<u>\$ 24,121</u>	<u>\$ 30,882</u>	<u>\$ 73,286</u>	<u>\$ 97,795</u>	<u>\$ 69,980</u>	<u>\$ 62,826</u>	<u>\$ 331</u>	<u>\$ 4,025</u>	<u>\$ 164,535</u>	<u>\$ 556,799</u>
LIABILITIES AND FUND BALANCES											
LIABILITIES											
Accounts payable and accrued expenses	\$ 9,781	\$ 9,265	\$ 7,580	\$ -	\$ 280	\$ 239	\$ 202	\$ -	\$ 30	\$ 2,663	\$ 30,040
Deferred revenue	-	11,041	9,972	73,286	1,199	1,024	862	-	135	96,500	194,019
Total liabilities	<u>9,781</u>	<u>20,306</u>	<u>17,552</u>	<u>73,286</u>	<u>1,479</u>	<u>1,263</u>	<u>1,064</u>	<u>-</u>	<u>165</u>	<u>99,163</u>	<u>224,059</u>
FUND BALANCES											
Reserved for debt retirement	-	-	-	-	96,316	68,717	61,762	331	3,860	-	230,986
Reserved for inventory	4,911	-	-	-	-	-	-	-	-	-	4,911
Reserved for other school-based activities	14,326	3,815	13,330	-	-	-	-	-	-	-	31,471
Reserved for Capital Projects	-	-	-	-	-	-	-	-	-	65,372	65,372
Total fund balances	<u>19,237</u>	<u>3,815</u>	<u>13,330</u>	<u>-</u>	<u>96,316</u>	<u>68,717</u>	<u>61,762</u>	<u>331</u>	<u>3,860</u>	<u>65,372</u>	<u>332,740</u>
Total liabilities and fund balances	<u>\$ 29,018</u>	<u>\$ 24,121</u>	<u>\$ 30,882</u>	<u>\$ 73,286</u>	<u>\$ 97,795</u>	<u>\$ 69,980</u>	<u>\$ 62,826</u>	<u>\$ 331</u>	<u>\$ 4,025</u>	<u>\$ 164,535</u>	<u>\$ 556,799</u>

Elk Rapids Schools

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	Special Revenue Funds			Debt Service Funds							Total Non-Major Governmental
	Food Service	Athletics	Kids Club and Kinderpals	Durant 1998 School Improvement Bond	2002 Refunding Bond	2003 Refunding Bond	2003 School Bldg & Site Bond	2005 School Bldg & Site Bond	2007 School Bus Facilities Bond	Athletic Complex Fund	
Revenues											
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 734,385	\$ 627,401	\$ 528,145	\$ -	\$ 82,406	\$ -	\$ 1,972,337
Interest	2,376	-	1,550	-	26,281	22,366	17,954	13	1,706	2,816	75,062
State revenues	21,962	-	-	-	-	-	-	-	-	-	21,962
Federal revenues	178,823	-	-	-	-	-	-	-	-	-	178,823
Other	349,137	116,942	211,246	-	-	-	-	-	-	120,605	797,930
Total revenues	552,298	116,942	212,796	-	760,666	649,767	546,099	13	84,112	123,421	3,046,114
Expenditures											
Food Service	624,317	-	-	-	-	-	-	-	-	-	624,317
Athletics	-	274,982	-	-	-	-	-	-	-	-	274,982
Kids Club and Kinderpals	-	-	205,151	-	-	-	-	-	-	-	205,151
Debt Service											
Principal	-	-	-	-	665,000	620,000	455,000	25,000	55,000	-	1,820,000
Interest	-	-	-	-	90,163	38,788	92,938	5,814	24,565	-	252,268
Other	-	-	-	-	2,580	2,260	1,908	-	687	-	7,435
Capital outlay	11,614	21,902	201	-	-	-	-	-	-	1,672	35,389
Other	-	-	-	-	-	-	-	-	-	37,619	37,619
Total expenditures	635,931	296,884	205,352	-	757,743	661,048	549,846	30,814	80,252	39,291	3,257,161
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(83,633)	(179,942)	7,444	-	2,923	(11,281)	(3,747)	(30,801)	3,860	84,130	(211,047)
Operating transfers in	88,000	176,000	-	-	-	-	-	30,814	-	-	294,814
Operating transfers out	-	-	-	-	-	-	-	-	-	(30,814)	(30,814)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	4,367	(3,942)	7,444	-	2,923	(11,281)	(3,747)	13	3,860	53,316	52,953
Fund balance, beginning of year	14,870	7,757	5,886	-	93,393	79,998	65,509	318	-	12,056	279,787
Fund balance, end of year	\$ 19,237	\$ 3,815	\$ 13,330	\$ -	\$ 96,316	\$ 68,717	\$ 61,762	\$ 331	\$ 3,860	\$ 65,372	\$ 332,740

OTHER SUPPLEMENTARY INFORMATION

Elk Rapids Schools

2007 SCHOOL BUS FACILITY BOND ISSUE CAPITAL PROJECTS FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Twelve Month and Five Day Period Ended June 30, 2008

Revenue	
Investment income	<u>\$ 14,236</u>
Expenditures	
Capital outlay	
School bus facility	616,354
Other	9,487
Bond costs and fees	<u>17,401</u>
Total expenditures	<u>643,242</u>
REVENUES UNDER EXPENDITURES	<u>(629,006)</u>
Other financing sources	
Bond proceeds	<u>645,000</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	15,994
Fund balances, beginning of period	<u>-</u>
Fund balances, end of period	<u><u>\$ 15,994</u></u>



Business and Financial Advisors
Our clients' success – our business

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James G. Shumate, CPA
Robert C. Thompson, CPA
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Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Elk Rapids Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the ***Elk Rapids Schools*** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

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We consider the following deficiency to be a significant deficiency in internal control:

Segregation of Duties

The size of the administrative staff precludes proper segregation of duties for optimal internal control. Ideally, the internal control system of the School District should segregate the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. Although there is no indication of any significant errors or misappropriation of assets, we recommend the Board continue its financial oversight involvement due to the inherent lack of segregation of duties.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District in a separate letter dated October 6, 2008.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

October 6, 2008



Business and Financial Advisors
Our clients' success – our business

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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Elk Rapids Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Elk Rapids Schools (the "School District") for the year ended June 30, 2008 and have issued our report thereon dated October 6, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated October 24, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Internal Controls

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

We consider the following deficiency to be a *material weakness* in internal controls:

Segregation of Duties

We remind you that an inherent weakness in your system of internal control exists because the limited size of your staff does not permit an adequate segregation of duties. Without an adequate segregation of duties, there is an increased risk that errors or fraud could occur and not be detected. We can provide consulting services to help you identify your greatest risk exposures and design procedures to reduce those risks to the extent reasonably possible.

The following additional matters are not considered to be material weaknesses or significant deficiencies in internal control, but are opportunities to strengthen internal controls, reporting and operating efficiency.

2008 School Improvement Bond Audit Requirements

Based on the Michigan Department of Treasury's *Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan* (the "Bulletin"), a supplemental audit and audit reporting is required in relation to the bonds the School District issued during the current fiscal year. As stated in the Bulletin, such audit is required to be performed within 120 days after project completion. As further detailed in the Bulletin, various reporting options are available for reporting the results of the bond audit, some of which require notification to the Department of Treasury within the 120 day window. The project is expected to be complete in August 2011. This bond audit and reporting is outside of the scope of the financial statement audit being performed by Dennis, Gartland and Niergarth. We understand that the School District has not engaged Dennis, Gartland and Niergarth at this time for said bond audit.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 22, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Elk Rapids Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Accumulated leave liability
Depreciation

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Risk Management
Commitments and Contingencies

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatement detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Unrecorded Adjustments

The adjustments we proposed but which were not recorded relate to property tax revenues recorded at amounts less than expected. We and the Elk Rapids Schools' management evaluated these unadjusted differences and concluded that they are not significant to the overall financial statement presentation.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 6, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Elk Rapids Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Elk Rapids Schools and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Dennis, Gartland & Niergarth

October 6, 2008